

CONTRA COSTA COUNTY ASSESSMENT PRACTICES SURVEY

SEPTEMBER 2004

CALIFORNIA STATE BOARD OF EQUALIZATION

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September 17, 2004

TO COUNTY ASSESSORS:

CONTRA COSTA COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2004/050

A copy of the Contra Costa County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Gus S. Kramer, Contra Costa County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. This report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Contra Costa County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this survey from March through August 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Kramer and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

We hope that you find this and other survey reports useful, and we invite comments and suggestions for their improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy and financial interest in promoting competent and equitable property assessment. The public policy interest arises from the obvious impact of property taxes on taxpayers and the necessity for equitable assessments that are in accordance with applicable legal provisions. The financial interest arises from the fact that more than one-half of all property tax revenue is used to fund public schools, and the State is required to backfill any shortfall in this source of school funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under the program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Contra Costa County Assessor's Office.

The assessor is required to file a response to the survey report with his or her board of supervisors that states the manner in which the assessor has implemented, or intends to implement, the recommendations contained in this report. If the assessor will not implement any of the recommendations, he or she must also state the reasons for not doing so. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Contra Costa County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Gus S. Kramer, Contra Costa County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. In accordance with those statutes, this survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE's survey program determines whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by a satisfactory statistical result from a sampling of the county's assessment roll, or by a determination—based on objective standards defined by regulation—that there are no significant assessment problem in the county. (Additional information regarding the statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.)

Our survey of the Contra Costa County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Contra Costa County who provided information relevant to the property tax assessment program.

This survey included an assessment sample of Contra Costa County's 2002-03 assessment roll to determine the average level (ratio) of assessment for all properties and the degree of disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. (The sampling program is described in greater detail in Appendix B.)

This survey report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practice. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practice, an assessment practices survey closely resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In the 2000 Contra Costa County Assessment Practices Survey, we made four recommendations to address problems we found in the assessor's assessment policies and procedures. The assessor has fully implemented three of the recommendations — those pertaining to change in ownership, possessory interests, and the racehorse program — and did not implement the fourth recommendation pertaining to manufactured homes, which is repeated in this survey.

In the area of administration, we found the assessor's assessment appeals program is in compliance with all rules, statutes, and provisions and the assessor has successfully met the Property Tax Administration Program goals every year since 1995-96. However, we found the following deficiencies:

- The assessor did not submit final versions of the county's business property statements or the final version of the in-lieu tax forms for BOE review, as required by rule 171;² mixes non-BOE-prescribed forms with BOE-prescribed forms without including corresponding cover letters; includes incorrect penalty language on the non-BOE-prescribed change of ownership form; and requests information that is not required by section 5365 on the aircraft property statement including a statement in the instructions that a 10 percent penalty will be applied pursuant to section 5367 if the form is not completed.
- The assessment roll does not contain the required notations pertaining to escaped assessments for prior years, as required by section 533.

In regard to real property assessment, the assessor has effective programs for new construction, supplemental assessment, declines in value, leasehold improvements, water company properties, and pipeline rights-of-way. However, we noted the following deficiencies:

- The assessor uses a risk component of 0.5 percent in the valuation of all properties under California Land Conservation Act (CLCA) contract rather than allowing for variable risks associated with the agricultural income, does not treat each CLCA property as a single appraisal unit, and uses inconsistent appraisal methods to value CLCA properties.
- The assessor establishes incorrect base-year values for taxable government-owned properties and assesses nontaxable government-owned property.
- The assessor incorrectly assesses the taxable possessory interests of private concessionaires who provide food services at community colleges.
- The assessor does not use the proper appraisal unit in the valuation of mineral properties.

² All rule references are to California Code of Regulations of Title 18, Public Revenues,

In regard to the assessment of business personal property and fixtures, the assessor has an effective audit program and administers the racehorse in-lieu tax program correctly. However, we noted the following deficiencies:

- The assessor inappropriately places several accounts on the direct billing program although reported costs for the accounts are greater than \$100,000.
- The assessor does not estimate an amount for taxable supplies when such amounts are not reported on the business property statement and does not discover and assess some taxable animals.
- The assessor uses unsupported percent-good factors to value older equipment.
- The assessor has not corrected the classifications of personal property on apartments that have not changed ownership since the assessor has adopted a new policy of classifying apartment personal property as personal property.
- The assessor does not classify manufactured homes as personal property as required by section 5801 and uses an unsupported single depreciation factor to decline the values of all manufactured homes after their initial enrollment.

Despite the above problems, we found that almost all properties and property types are being assessed correctly by the Contra Costa County Assessor. The Contra Costa County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2002-03 assessment roll indicated an average assessment ratio of 99.09 percent, and the sum of the absolute differences from the required assessment level was 1.20 percent. Accordingly, the BOE certifies that Contra Costa County is eligible for the continuing reimbursement of costs associated with administering supplemental assessments.

In relation to the findings summarized above, this report contains the following recommendations (listed in the order they appear in the body of the report):

- RECOMMENDATION 1:** Revise assessment forms and procedures by: (1) submitting final prints of the property statements and in-lieu tax forms as required by rule 171, (2) transmitting non-prescribed forms in such a manner that it does not imply that the section 463 penalty applies to them, (3) removing the section 482 penalty language from the locally developed sales questionnaire, and (4) removing the penalty statement from the aircraft statement or modifying it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.20
- RECOMMENDATION 2:** Correctly identify escaped assessments on the current assessment roll as required by section 533.22

RECOMMENDATION 3:	Revise CLCA assessment procedures by: (1) developing appropriate risk components for CLCA properties, (2) properly applying the appraisal unit concept to each CLCA property, and (3) allowing for recapture of living improvements by using an appropriate discount rate for the declining stage of production.....	32
RECOMMENDATION 4:	Revise taxable government-owned property assessment procedures by: (1) establishing base year values for taxable government-owned properties at the lower of the restricted value or current market value, (2) assessing only government-owned property that qualifies for taxation according to section 11 of article XIII of the California Constitution, and (3) reviewing government-owned properties located outside their boundaries to determine whether they are taxable.	34
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RECOMMENDATION 8:	Revise the personal property discovery program by: (1) assessing all taxable supplies, and (2) assessing all taxable animals.	44
RECOMMENDATION 9:	Use Assessors' Handbook Section 581, <i>Equipment Index and Percent Good Factors</i> , as intended.	46
RECOMMENDATION 10:	Uniformly assess personal property in apartments.	46
RECOMMENDATION 11:	Revise manufactured home assessment procedures by: (1) classifying all manufactured homes as personal property as required by section 5801, and (2) annually assessing manufactured homes at the lower of current market value or factored base year value as required by section 5801.	50

STATUS OF 2000 SURVEY RECOMMENDATIONS

Change in Ownership

We recommended that the assessor apply the penalty prescribed in section 482 only if the BOE-prescribed change in ownership statement is not returned within 45 days. The assessor has fully implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor assess all taxable possessory interests. The county fairgrounds had not reported detailed information on several hundred interim users, concessionaires, and commercial vendors; consequently, the assessor had not identified and assessed all taxable interests. The assessor has implemented this recommendation.

Manufactured Homes

We recommended that the assessor classify and enroll manufactured homes as personal property. The assessor concurred with the recommendation; however, instead of reclassifying the manufactured homes as personal property, he developed a special use code to identify manufactured homes on the secured roll. The special use code was intended to alert the county auditor that these properties were not subject to special assessments.

The assessor currently classifies manufactured homes located in rental parks as personal property but classifies manufactured homes located outside of rental parks as improvements, that is, as real property. We repeat our recommendation.

Racehorses

In our 2000 assessment practices survey, we made a two-part recommendation regarding the assessment of racehorses. We recommended the assessor (1) mail racehorse forms to taxpayers and (2) comply with statutory record keeping and audit requirements. The assessor has implemented both parts of our recommendation.

OVERVIEW OF CONTRA COSTA COUNTY

Contra Costa County

Contra Costa County was incorporated in 1850 as one of California's original 27 counties; since incorporation, the City of Martinez has served as the county seat. Contra Costa is one of the nine counties in the San Francisco-Oakland Bay Area. The county is bordered on the north by Solano and Sacramento counties, on the east by San Joaquin County, on the south by Alameda County, and on the west by the San Francisco Bay. The county encompasses 720 square miles, of which approximately 220 square miles are within 19 incorporated areas. Contra Costa County is the ninth most populous county in California, with a population of approximately 930,000 as of January 1, 2002.

County employment growth has been rapid; this growth is being driven primarily by the need to provide services to an increasing local population. Contra Costa ranks high among California counties on a variety of income measurements. The following table lists the top 10 industries in the county, based on total workforce of approximately 406,000:

INDUSTRY	NUMBER OF EMPLOYEES
Retail Trade	64,579
Finance, Insurance, and Real Estate	46,217
Construction	31,543
Health Services	30,165
Educational Services	28,545
Manufacturing, Nondurable Goods	24,098
Business and Repair Services	23,068
Wholesale Trade	19,586
Public Administration	19,028
Transportation	18,488
Total Top 10 Industries	305,317

Administration

Assessor's Budget

The assessor's office is funded through the county's general fund. Funds are provided so that the assessor can produce a timely roll of all properties subject to local assessment, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments that are appealed by taxpayers, and provide information and service to the public as needed.

The following table provides the assessor's budget for the last five years:

FISCAL YEAR	ACTUAL BUDGET	GROSS REVENUES	NET BUDGET
2002-03	\$13,044,800	\$3,095,443	\$9,949,357
2001-02	\$11,693,244	\$2,599,861	\$9,093,383
2000-01	\$11,664,464	\$3,068,505	\$8,595,959
1999-00	\$10,831,742	\$3,125,910	\$7,705,832
1998-99	\$10,515,508	\$2,837,249	\$7,678,259

Gross revenues represents money received from sales of parcel maps and other non-mandated services provided by the assessor. The above amounts do not include funds provided by the State Department of Finance through the Property Tax Administration Program (PTAP). This funding is discussed in a separate section of this report.

Assessor's Workload

The assessor produced a local assessment roll for 2002-03 consisting of 374,331 assessment parcels (323,719 on the secured roll and 50,612 on the unsecured roll). This assessment roll had a gross taxable value of \$100,747,496,293, which was an increase of 8.03 percent over the 2001-02 assessment roll (\$93,061,369,826).

The following table displays property type, number of assessments, and enrolled values information pertinent to the 2002-03 assessment roll:

TYPE	COUNT	TOTAL VALUE
Agricultural	2,560	\$1,519,420,547
Commercial	9,443	\$12,090,869,153
Industrial	2,448	\$9,855,546,297
Multi-Residential	7,854	\$4,288,227,295
Open Space	400	\$43,579,550
Condos	39,637	\$7,398,843,948
Other Residential	18,293	\$954,689,331
S.F.R ³ . & M/H	242,799	\$59,960,354,639
Miscellaneous	275	\$31,671,419
Pipelines	10	\$8,531,508
TOTAL SECURED	323,719	\$96,151,733,687
Aircraft	502	\$73,413,240
Boats	26,262	\$309,765,526
Other	23,848	\$4,212,583,840
TOTAL UNSECURED	50,612	\$4,595,762,606
TOTAL ROLL	374,331	\$100,747,496,293

The assessor's real property workload for 2002-03 consisted of approximately 20,000 assessments resulting from changes in ownership and 22,500 assessments resulting from new construction. The roll included nearly 1,700 manufactured homes, slightly more than 2,200 taxable possessory interests, 403 California Land Conservation Act parcels, and approximately 3,400 decline-in-value assessments. The assessor also completed a business property workload that included processing approximately 22,000 business property statement reviews (secured and unsecured accounts), 298 audits (270 mandatory and 28 nonmandatory), over 26,200 vessel assessments, and 502 aircraft assessments.

³ Single Family Residence (SFR) and Manufactured Homes (M/H).

The assessor has produced a local roll that has increased, as the following table illustrates (secured and unsecured assessment rolls):

ROLL YEAR	NO. OF ASSESSMENTS	TOTAL ROLL VALUE	% INCREASE
2002-03	374,331	\$100,747,496,293	8.03%
2001-02	368,736	\$93,261,369,826	10.9%
2000-01	364,548	\$84,095,709,694	9.21%
1999-00	360,099	\$77,002,512,841	6.97%
1998-99	360,401	\$71,985,954,074	---

Assessor's Staffing

To complete its work, the assessor's office has 137 budgeted full-time positions. Ten of these positions are funded through the Property Tax Administration Program (PTAP) program.

The assessor's staff is divided in two divisions: property appraisal and appraisal support. Each division is administered by an assistant assessor. The property appraisal division is divided into four main sections: residential, commercial/industrial, business property, and assessment standards. Each section, except the standards section, is administered by a principal appraiser; a supervising appraiser administers the standards section. Another principal appraiser is assigned to special projects and reports directly to the assistant assessor.

The appraisal support division is divided into three main sections: appraiser support, drafting, and clerical. The following table summarizes the assessor's staffing for Fiscal Year 2002-03 and indicates those positions funded through PTAP:

TITLE	NO. OF POSITIONS	PTAP POSITIONS
Assessor	1	
Assistant County Assessor	2	
Principal Appraiser	4	
Supervising Appraiser	7	1
Associate Appraiser	21	
Assistant Appraiser	13	2
Junior Appraiser	7	
Senior Real Property Technical Asst.	2	6
Real Property Technical Assistant	4	
Supervising Auditor-Appraiser	1	
Senior Auditor-Appraiser	5	
Auditor-Appraiser II	3	1
Auditor-Appraiser I	1	
Network Administrator I	1	
Network Analyst I	1	
Information Systems Specialist II	1	
Drafting Services Coordinator	1	
Computer Aided Drafting Operator	3	
Clerical Staff Manager	1	
Supervising Assessment Clerk	5	
Clerk-Specialist Level	9	
Clerk-Senior Level	22	
Clerk-Experienced Level	7	
Information Systems Assistant II	1	
Administrative Aide	1	
Executive Secretary	1	
Administrative Service Assistant II	1	
Local Exemption Specialist	1	
TOTAL POSITIONS	127	10

The survey team found the Contra Costa County Assessor's Office to be adequately staffed and well organized.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, later designated the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan was considered repaid if the county satisfied agreed upon performance criteria set forth in the contract. All PTAP contracts required the county to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevented a county from using PTAP funds to replace an assessor's existing funding; in other words, it guaranteed that additional funds would in fact flow to assessors' offices.

For most counties, the contract provided that verification of performance was to be provided to the State Department of Finance by the county auditor-controller.

In 2001, the state established the Property Tax Administration Grant Program. This program runs from Fiscal Year 2002-03 through Fiscal Year 2006-07 and replaces the previous loan program.

The new grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, a county will not be obligated to repay the funds; rather, the county will be ineligible to receive a subsequent grant.

Contra Costa County has participated in PTAP (loan or grant) every year since its inception. Throughout the program, the county has maintained assessor staffing at the base level of 118 or more positions and the assessor's budget at the base level of \$7,503,192 or higher, as required for program eligibility. Each year, the Contra Costa's County Auditor-Controller's Office has verified the assessor's performance of the PTAP contract requirements.

To show satisfactory performance, the county must (1) compute, to the extent possible, the total value change in the following categories and (2) add all secured and unsecured personal property and fixture items:

- Transfers,
- New Construction,
- Supplemental value added (estimated at 50 percent of the transfer and new construction values),
- Mandatory and non-mandatory audits,
- Decline-in-Value Restorations, and
- Assessment Appeals values (the difference between the taxpayers' opinion of value and the assessment appeals board' determinations of values finalized during the fiscal year).

Based on the above values, the county auditor-controller and the Department of Finance will determine whether the assessor has met the requirements for satisfactory performance.

The assessor has used the PTAP funding to support staffing (1 supervising appraiser, 2 appraisers, 1 auditor-appraiser and 6 technicians), pay for staff overtime, pay for contract appraisers, and to obtain consultants for major assessment appeals. The funding is also used to upgrade and maintain computer systems (hardware and software) and the geographic information system/parcel mapping implementation.

GENERAL ASSESSMENT ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs, that is, matters of general assessment administration. In this regard, the survey team reviewed appraiser certification and training, assessment standards and quality control, the processing of property exemptions, disaster relief assessments, the assessment of low-value property, and the assessor's use of assessment forms. We also reviewed how the assessor processes corrections and changes to the completed assessment roll and how the assessor prepares for and presents assessment appeals.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. In addition, auditor-appraisers who perform mandatory audits must also meet additional requirements found in section 670(d). Technical support staff employees do not make valuation decisions and are not required to possess an appraiser's certificate.

We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d).

Standards and Quality Control

The standards and quality control functions ensure the consistency and quality of the appraisal product and general taxpayer services through the development and maintenance of appraisal and operating standards. Other duties related to standards and quality control unit may include training, legal interpretations, or data processing coordination.

Procedures Manuals

The assessor has developed an extensive policy and procedures manual that directs office and assessment activities. The purpose of the assessor's manual is to provide an overview of the duties, functions, and operations of the assessor's office. The manual is divided into sections containing information regarding organizational structure, functions and staffing, workflow, administrative policies and procedures, timekeeping procedures, expenses and travel reimbursement, and public contact and safety guidelines. This manual not only guides employees on how to complete tasks but also assigns task responsibility. Employees are also directed through staff meetings and on-the-job supervision.

We found the Contra Costa County Assessor's manuals to be well documented, informative, up to date, concise, and very useful.

Communications

The assessor is proactive about taxpayer education and customer service. The assessor provides the following assessment information pamphlets:

- Assessment of aircraft;
- Assessment of boats and vessels;
- Improvement bonds;
- Manufactured home property taxes;
- Proposition 8 (decline in property value);
- Propositions 58 and 193 (reassessment exclusion for parent-child and grandparent-grandchild ownership transfers);
- Proposition 60 (transfer of property tax base for senior citizens); and
- General property tax information (in Spanish).

Blank forms are also available at the front reception counter.

The assessor also maintains a web site that provides general office and assessment information to the public. The site includes a mission statement, office address, and fax and telephone numbers. The site also provides general assessment information, pamphlets, and forms that the public can download. The on-line forms have been reviewed by the BOE and they are current and in the correct format.

Review of Completed Work

The assessor has an effective system of ensuring the quality of the appraisal work product. When real property appraisals are completed, they are submitted to the supervising appraiser, who reviews them for proper documentation and conformity to property tax law. After this review, the supervising appraiser sends the file to the Assessor's Supplemental Roll Unit (ASR).

The assessor's standards and quality control for the real property appraisals is efficient and well managed. The review of completed work procedures in the business property section is addressed in the "Assessment of Personal Property and Fixtures a section of this survey report."

Exemptions

The exemption function is divided into two units: homeowner's exemptions and local exemptions. The homeowners exemptions unit determines who meets the requirements for a homeowner's exemption. The local exemptions unit determines eligibility for all other exemptions such as the welfare, disabled veterans, church, religious, and public school exemptions. Although the work of these units is generally independent of appraisal staff

oversight, in situations involving partial eligibility for a local exemption, appraisers are called upon to determine eligible percentages and value amounts.

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This provision, implemented by section 206 of the Revenue and Taxation Code, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operated for those purposes, (2) are non-profit, and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The Legislature has acted upon such authorization by enacting the religious exemption in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor administers the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. However, the religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table illustrates the number of church exemptions and exempt values granted by the assessor for the last five years:

ASSESSMENT YEAR	NUMBER OF CHURCH EXEMPTIONS	EXEMPTED VALUE
2002-03	30	\$7,520,357
2001-02	33	\$6,279,535
2000-01	30	\$7,221,622
1999-00	38	\$7,716,515
1998-99	24	\$6,062,823

We found that church exemptions were properly processed and enrolled.

The following table illustrates the number of religious exemptions and exempt values granted by the assessor for the last five years:

ASSESSMENT YEAR	NUMBER OF RELIGIOUS EXEMPTIONS	EXEMPTED VALUE
2002-03	451	\$372,732,765
2001-02	449	\$355,991,315
2000-01	403	\$310,830,532
1999-00	433	\$327,615,822
1998-99	426	\$303,006,932

We found that religious exemptions were being properly enrolled.

Welfare Exemption

The welfare exemption from local property taxes is available for property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), which use its property exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and issues *Organizational Clearance Certificates* to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemptions claims without review by the BOE.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table illustrates the number of welfare exemptions and exempt values granted by the assessor for the last five years:

ASSESSMENT YEAR	NUMBER OF WELFARE EXEMPTIONS	EXEMPTED VALUE
2002-03	546	\$1,513,439,985
2001-02	516	\$1,442,826,752
2000-01	402	\$1,205,412,321
1999-00	541	\$1,197,630,221
1998-99	488	\$1,104,356,952

Based on a review of the exemption procedures and a sample of exemption claims, we conclude that welfare exemptions are properly processed and enrolled.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance that provides property tax relief to assessees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to: (1) a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, (2) any qualifying misfortune or calamity, or (3) a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a taxable possessory interest in state or federal government-owned land.

The Contra Costa Board of Supervisors' adopted a disaster relief ordinance in June 1982. The ordinance provides for reassessment of property damaged or destroyed by major misfortune or calamity, in an area or region subsequently proclaimed by the governor to be in a state of disaster due to misfortune or calamity. The purpose of the ordinance is to implement the provisions of section 170.

The ordinance that is currently in effect requires that an application for assessment relief must be filed within 60 days of the Governor's proclamation that the area is in a state of disaster. The ordinance also allows the assessor, with the approval of the board of supervisors, to reassess the property when no application for reassessment is made, provided that the damage was incurred within the preceding six months. Additionally, the current ordinance allows only 14 days in which to file an appeal.

We found that the assessor's program is in compliance with the county's ordinance and is effectively administered.

Low-Value Property Exemption Resolution

Section 155.20 authorizes a county board of supervisors to exempt from property taxation all real property with a base year value and personal property with a full value so low that the total taxes, special assessments and applicable subventions on the property would amount to less than the assessment and collection costs if the property were not exempt. Under section 155.20(b)(1), however, a county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000 or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

In addition to the provisions of any low-value property exemption resolution or ordinance, section 75.41 allows the county auditor to cancel any supplemental tax bill if the total tax is \$20 or less. Section 75.55(b) also allows the board of supervisors to grant the authority to the assessor to cancel any supplemental assessment that would result in a tax bill less than the cost of assessing and collecting the tax. Recent code changes, effective January 1, 2003, increased the level that the assessor can cancel from \$20 to \$50.

The Contra Costa County Board of Supervisors has adopted a resolution that grants the assessor the authority to cancel all supplemental assessments where the taxes resulting from the assessment do not exceed \$20. While small assessments are not supplementally billed, these values are added to the regular assessment roll on the following lien date.

We found that the assessor's program is in compliance with the county's ordinance and is effectively administered.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁴ The BOE currently prescribes 76 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for: (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE prescribed forms they will use in the following year.

⁴ Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

The Contra Costa County Assessor uses 60 BOE-prescribed forms. The assessor submitted the required checklists to the BOE in a timely manner. Of the 60 forms, the assessor rearranged 14 forms and also timely submitted the rearranged forms for BOE approval.

Additionally, the assessor uses locally developed information questionnaire forms to request information concerning property that has transferred ownership. The assessor has developed three questionnaires: (1) residential/land, (2) apartment, and (3) commercial/industrial. Each questionnaire requests data that is specific for that type of property. The request is mailed to the property owner, and if the original request is not returned, a second form is sent to the property owner. If the second form is not returned, the assessor sends the BOE-prescribed *Change of Ownership Statement* to the taxpayer.

With the exception of the following, we discovered no problems with the assessment forms used by the assessor.

RECOMMENDATION 1: Revise assessment forms and procedures by: (1) submitting final prints of the property statements and in-lieu tax forms as required by rule 171, (2) transmitting non-prescribed forms in such a manner that it does not imply that the section 463 penalty applies to them, (3) removing the section 482 penalty language from the locally developed sales questionnaire, and (4) removing the penalty statement from the aircraft statement or modifying it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.

Submit final prints of the property statements and in-lieu tax forms as required by rule 171.

For the 2003 lien date, we did not receive the assessor's final prints (versions) of the business property statements or the final prints of the in-lieu tax forms for BOE review. Rule 171 requires the assessor to annually submit to the BOE a printed copy of each form for approval no later than February 10.

By not submitting the final prints of the property statements and in-lieu tax forms, the assessor is not in full compliance with regulations.

Transmit non-prescribed forms in such a manner that it does not imply that the section 463 penalty applies to them.

The assessor includes a locally developed form (Office Bus 4280, *Supplemental Schedule of Personal Property & Fixtures Leased, Loaned or Rented to Others in Contra Costa County as of January 1, 20__*) with the BOE-prescribed property statements sent to property owners. The accompanying instructions imply that if the forms, both BOE-prescribed and non-prescribed, are not completed, a 10 percent penalty may be applied to the assessment under the provisions of section 463.

The assessor's non-prescribed form, while an effective tool, is not BOE-prescribed and, therefore, cannot carry section 463 penalty assessments. The assessor has the authority under section 441(d) to request that additional information be made available to him. However, the assessor does not have the authority to apply the section 463 penalty when the taxpayer fails to complete a form or questionnaire that is not BOE-prescribed.

Section 441(d) requires a taxpayer to make available for examination information or records regarding his or her property. The taxpayer may make the information available by the completion of the assessor's designed forms and questionnaires or by allowing the assessor to inspect his or her records. If the taxpayer fails to make additional information available to the assessor, the assessor may seek remedies provided by sections 462, 468, and 501. However, the assessor does not have the authority to impose a penalty pursuant to section 463. Commingling BOE-prescribed forms with non-prescribed forms gives the impression that if both forms are not completed, the taxpayer will be subject to the section 463 penalty.

Remove the section 482 penalty language from the locally developed sales questionnaire.

The assessor has incorrectly included the section 482 penalty language in his locally developed sales questionnaire form. The penalty under section 482 can only be assessed if the form is a BOE-prescribed form.

The assessor may use locally developed sales questionnaires in order to gather data. However, the request for information must be made under the authority of section 441(d). Any request for information requested by the assessor using section 441(d) requires that the taxpayer make available for examination the requested information. Failure to do so may result in penalties contained in section 462.

Remove the penalty statement from the aircraft statement or modify it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.

The assessor uses an aircraft statement that requests more information than required by section 5365. The statement requests information regarding the aircraft manufacturer, manufacturer's serial number, model, year, FAA number, date purchased, purchase price and when the aircraft was brought into Contra Costa County. In addition, the taxpayer is also asked to provide data regarding avionics, portable hangars, engine(s), and other information. The form includes a statement that failure to file the form on time will result in a penalty of 10 percent as required by section 5367.

Section 5365 only requires the owner of an aircraft to provide the assessor with the make, model and year of manufacture of the aircraft. If the taxpayer does not provide these three required items, a penalty of 10 percent of the market value of the unreported aircraft shall be added to the value of the aircraft. Failure to file the supplemental information requested by the assessor does not constitute a failure to file the required information and is therefore not subject to section 5367 penalties.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the county auditor by July 1 of each year. After its delivery to the county auditor, the assessment roll may not be changed except as authorized by statute. All authorized assessment roll changes are governed by specific statutes, and any roll change must be accompanied by the appropriate statutory reference, or annotation.

Assessment roll changes fall under two general categories: escape assessments and corrections.

An escape assessment is an assessment of property that originally was not assessed, or was underassessed, for any reason. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table contains the annual number of roll changes and the annual amount of net value change that were processed in Contra Costa County over the past five years.

ASSESSMENT ROLL YEAR	ROLL CHANGES	VALUE CHANGE
2002-03	6,323	+ \$265,625,875
2001-02	5,480	+ \$230,921,048
2000-01	5,096	- \$343,676,808
1999-00	6,859	- \$976,048,679
1998-99	12,526	- \$848,475,476

We found that roll corrections are made within the authorized period of time and that the *Notice of Proposed Escape Assessment* is mailed to taxpayers at least 10 days before the changes are entered on the roll, as required by law. In general, excluding the issue discussed immediately below, we found that assessment roll changes are made by the Contra Costa County Assessor in a manner that complies with property tax law.

RECOMMENDATION 2: Correctly identify escaped assessments on the current assessment roll as required by section 533.

Escaped assessments are noted on the electronic copy of the assessment roll, but not in the format prescribed by section 533. Additionally, there is no notification of escaped assessments on the microfiche copy of the current assessment roll; however, a list of escaped assessments is located next to the microfiche reader. The required notation for escaped assessments is absent from that list.

Section 533 requires that the assessor enter an escaped assessment on the roll for the current assessment year. If the escape is for a prior roll, the entry on the current roll must state the following: "Escaped assessment for year _____ pursuant to Sections _____ of the Revenue and Taxation Code." Such a notation provides public notice of any escaped assessments. Not making the proper roll notation for escaped assessments ignores an explicit statutory requirement.

Assessment Appeals

The assessment appeals function is prescribed by section 16 of article XIII of the California Constitution, and sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards and the manner of their creation. In addition, as authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the assessment appeals process.

Since our last survey, the number of assessment appeal applications has declined dramatically in Contra Costa County. In fiscal year 1996-97, more than 8,000 appeal applications were filed. But by fiscal year 2002-03, the number of appeals applications had dropped to 1,272. The following table illustrates the assessment appeals workload for the last five years as of April 2003:

Fiscal Year	No. Filed	Open	Withdrawn	Stipulated	Appeals Board Decisions		
					Reduced	Upheld	No show
2002-03	1,272	1,251	20	0	0	1	0
2001-02	1,279	238	916	4	4	41	76
2000-01	1,306	33	1,180	12	5	19	57
1999-00	1,129	4	893	49	6	43	134
1998-99	2,032	0	1,725	44	9	60	194

The assessor has no backlog of appeals cases. In accordance with section 1604(c)(1), the taxpayer and the assessment appeals board have signed waivers for all appeals not resolved within two years of the timely filing of the application for changed assessment.

Contra Costa County has one assessment appeals board that consists of three members and two alternates, appointed by the board of supervisors. All assessment appeals board members have attended the BOE assessment appeals training class. In addition, the assessment appeals board has adopted local rules regarding the duties of the assessment appeals board.

The assessor efficiently manages his appeals and coordinates scheduling of appeals hearings with the assessment appeals board. Copies of applications for changed assessment are sent from the clerk of the board to the assessor, where the appeals are tracked via a database. Then, the appeals are forwarded to appropriate team supervisors for review and assignment to appraisers. Most applications for changed assessment are withdrawn, without resulting in an assessment appeals board hearing.

We reviewed 15 real property appeal hearing files and 3 business property appeal hearing files. All comparable sales used in the appeal hearing appraisal were in compliance with rule 324(d) and occurred no more than 90 days after the date for which the value was being estimated.

The assessment appeals process is in compliance with all applicable rules, statutes, and provisions. In each instance, the appeal was filed timely, and the assessor's opinions and value conclusions were reasonable and well documented.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for reappraisal purposes. Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is review of deeds and other documents recorded at the county recorder's office. The recorder sends copies of all recorded documents to the assessor. As shown in the following table, the number of documents received from the recorder has remained relatively stable over the last four years, averaging just over 52,000 annually. As noted in the table, for the most recent four years, just over 50 percent of these documents result in reappraisals.

ROLL YEAR	DOCUMENTS	RESULTANT REAPPRAISED
2002-03 ⁵	40,870	19,741
2001-02	66,530	32,018
2000-01	51,065	26,363
1999-00	50,782	29,906

We found that *Preliminary Change of Ownership Reports* (Form BOE 502-AH) and *Change of Ownership Statements* (Form BOE-502-A) are effectively tracked and that penalties, if any, are applied as required by sections 482 and 483.

⁵ 2002-03 data extends only through February.

Direct Enrollment

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. Assessments are made based upon a limited review by the appraisal staff of confirmed sales that meet certain parameters. In Contra Costa County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences and condominiums. Among the parameters that a property must meet to qualify for direct enrollment are:

- The transfer must involve a 100 percent interest in the property,
- The sale price must be less than \$1,000,000,
- The sale price must exceed the current assessed value,
- The characteristics page must be complete,
- The transfer must include a confirmation code,
- The transfer must be accompanied by a PCOR, and
- The sale price must be within range of a newly calculated cost estimate.

If all direct enrollment criteria are met, the sale price is accepted and the assessment is sent to the Assessment Supplemental Roll Unit (ASR) to be enrolled. Approximately 50 percent of all transfers, accounting for about \$1 billion in annual assessed value, are directly enrolled.

Transfer List

Section 408.1 requires the assessor to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The type of information that should be included on the list is prescribed in the statute.

The Contra Costa County Assessor makes available for public inspection a list of real property transfers that occurred in the preceding two-year period. The transfers on this list are described by assessor's parcel number, recording date, document number, and selling price as indicated by the documentary transfer tax. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

Parent/Child and Base-Year Value Transfer Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer, on or after November 6, 1986, of the principal residence and the first \$1 million of other real property between parents and children when a claim is timely filed. Subsequently the section was modified to include qualifying purchases or transfers from grandparents to their grandchild or grandchildren

Section 69.5 allows qualified homeowners 55 years of age or older, to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Subsequently, section 69.5 was amended to include qualified homeowners who are severely and permanently disabled, and to allow counties to adopt ordinances to expand its benefits to include intercounty transfers. Contra Costa County has adopted implementing ordinances.

The following table represents the most recent three years of approved section 63.1 and 69.5 properties:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2002-03	2,549	283
2001-02	2,150	275
2000-01	2,083	272

We found that the assessor's staff is verifying eligibility, tracking, and processing section 63.1 and section 69.5 claims correctly and effectively.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities constitute changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation (with example) of section 64 changes in ownership or changes in control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. Because of lack of reliable data provided by the entities, LEOP advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

Between January 1, 1996 and January 1, 2002, the BOE notified the assessor of 24 transfers involving 206 properties. We found that the assessor properly reviewed the transfers and reappraised the properties when appropriate. Appraisal records are properly documented for the reported changes in control.

Improvement Bonds

Improvement bonds are instruments used to finance the construction of public improvements that generally enhance the land value of privately owned real property. Improvements often financed

using improvement bonds include sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the bonds. The improvement bond is a lien that encumbers the land and binds the owner and all successors in interest in accordance with 1911, 1913, or 1915 Bond Acts.

In Contra Costa County, there are 26,404 parcels encumbered by 1915 Act bonds with an outstanding principal balance of around \$250,000,000. The assessor adds the present worth of outstanding bonds to the nominal sale price of all affected transfers. The assessor has supported this adjustment through the use of paired sales analysis.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Statutory and regulatory requirements for defining and valuing new construction are found in rule 463 and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Discovery

The assessor discovers most new construction from building permits. The assessor annually receives between 17,000 and 25,000 permits from the 17 permit-issuing agencies in Contra Costa County. Other discovery sources include business property statements, completion reports for water-well construction issued by the Contra Costa County Public Health Department, and field canvassing by appraisers.

Permit Processing

The assessor receives copies of building permits and building plans from every city building department in the county, except for the Cities of Clayton and Moraga, as well as from the county building department. This information is received either in the form of individual hard copy permits or via input of permits to the assessor's computer-based Land Information System (LIS). The county building inspection department inputs permit information to the Permit Management System which is merged nightly with the LIS.

All building departments have been entering the appropriate assessor's parcel number on permits and forwarding notices of completion in a timely manner. When the permits are received from the remaining agencies, they are counted, researched, pre-coded, and a Building Permit Questionnaire is mailed to the property owner when appropriate. Permits are culled to eliminate items that do not qualify as new construction, such as re-roofing, replacement of water heaters, repairs, etc.

The assessor tracks all assessable permits, transfers, and declines in value, which are inputted into a data base program that is used to produce a work activity report. The assessor utilizes this program/report to track all permit activity.

The following table contains the assessor's new construction workload for assessment years 1997-98 through 2001-02:

NEW CONSTRUCTION WORKLOAD			
Roll Year	Permits Received	Permits Resulting in New Assessments	Construction Discovered Without Permits
2001-02	29,367	22,528	1,571
2000-01	26,197	17,524	972
1999-00	24,431	18,878	693
1998-99	27,205	15,841	911
1997-98	23,958	11,415	963

Self Reporting

The assessor sends self-reporting new construction questionnaires to owners of all properties with assessable permit activity, including residential properties. Questionnaires sent to owners of income-producing properties also request income, expense, and cost information. The assessor estimates that 70 to 75 percent of the owners of both residential and commercial property respond to these questionnaires. If the property owner does not return the questionnaire, the property is scheduled for a field review. The self-reporting program appears to be a valuable and productive method for discovery.

New Construction Valuation

The assessor uses locally developed cost data to value residential new construction. It is the assessor's opinion that in the high-priced southern area of Contra Costa County, the replacement cost data provided by the BOE dramatically understates actual costs. As a result, the assessor compiles historic cost information submitted by owners of residential properties. This growing database also helps him determine if a taxpayer's reported costs are typical with other cost data he has received on similar projects.

The assessor values new construction on agricultural and smaller commercial properties based on the reported actual cost or on replacement cost information provided by *Marshall Valuation Service*. The assessor utilizes the cost, market, and income approaches to estimate the value of new, large-scale commercial projects.

In general, we found that the assessor's new construction program is efficient, well administered, and in compliance with applicable property tax law.

Supplemental Assessments

Sections 75 et seq. require the assessor to appraise property at its full cash value on the date a property changes ownership or upon completion of new construction and to issue a supplemental

assessment that reflects the reassessment. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment that covers the portion of the fiscal year remaining after the date of change in ownership or new construction (the supplemental assessment). Statutory and regulatory requirements for supplemental assessments resulting from the completion of new construction are published in rule 463.500.

The assessor has processed in excess of 30,000 supplemental assessments annually for the last five roll years, as illustrated in the following table:

ROLL YEAR	SUPPLEMENTALS
2001-02	32,812
2000-01	38,162
1999-00	34,248
1998-99	30,676
1997-98	31,386

We reviewed a number of appraisal records of properties that had experienced new construction or a change in ownership during the 2002-03 assessment year. We found that all appraisable events and relevant valuation data are entered into the assessor's computer program. Upon entry into the assessor's database, the event is automatically posted and the computer program creates a *Notice of Supplemental Assessment* that is mailed to the assessee. After a 45-day waiting period, the supplemental assessment is electronically transmitted to the county auditor for billing.

The Contra Costa County Board of Supervisors adopted an ordinance (Ordinance #94-57) that grants the assessor the authority to cancel any supplement assessment that will generate less than \$20 in tax revenue. Although qualifying small supplemental assessments are cancelled, they are correctly added to the regular assessment roll on the following lien date. Supplemental assessments that produce a refund are transmitted to the county auditor immediately for processing.

Appraisal events occurring on or after the lien date and on or before May 31 require two supplemental bills. The assessor's supplemental assessment program automatically generates both billings.

The assessor's supplemental assessment program is efficiently coordinated and complies with all applicable provisions of property tax law.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value on the lien date. Thus, when a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, the property's current market value rises above its factored base year value, the assessor must enroll the factored base year value as the taxable value.

The assessor currently monitors 692 parcels, excluding manufactured homes, with decline-in-value assessments. This includes 301 residential properties, 382 commercial or industrial properties, and 10 properties of differing classifications. The assessor also reviewed 2,722 parcels that were removed from decline-in-value status the previous year to confirm the apparent market trend of increasing values for these properties.

Over the past five years, the number of declines-in-value has decreased dramatically. Each decline-in-value assessment is coded electronically for annual review. In addition, this program prevents the automatic application of the annual inflation factor to the prior year's taxable value.

The following table illustrates the number of parcels reviewed by the assessor for declines in value for the last five years:

ROLL YEAR	PARCELS REVIEWED
2002-03	3,414
2001-02	8,873
2000-01	12,598
1999-00	46,016
1998-99	57,544

Residential decline-in-value assessments are reviewed annually by the appraiser responsible for the subject's geographical area. The assessor is proactive in researching and answering all decline-in-value inquiries. He actively investigates area value indicators and trends that may indicate potential decline in value. The assessee is annually notified of the factored base year value and the enrolled reduced value.

The Contra Costa County Assessor's decline-in-value program is well organized and very effective. We found that the records were thoroughly documented and valuations were properly supported. The assessor properly applies statutory provisions and is conscientious in assessing properties that have experienced declines in value.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve enter into an agricultural preserve contract, thereby agreeing to restrict the use of their lands to agricultural and other compatible uses; in exchange, such properties are assessed at a statutorily prescribed restricted value.

Lands under such agricultural preserve contracts are valued for property tax purposes using a method based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). The lands are assessed at the lowest of the restricted value, the current market value, or the factored base year value (FBYV). Sections 421 through 430.5 prescribe the method of assessment for lands subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-*

Space Properties (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2002-03 tax roll, Contra Costa County had 403 parcels (encompassing approximately 48,846 acres) encumbered by CLCA contracts. Nonrenewal acreage, that is, acreage for which a notice to leave the program has been given by its owner, represented approximately 1,358 acres of the total restricted acreage. The total assessed value for CLCA land and living improvements for the 2002-03 tax roll was \$41,003,287.

The following table describes CLCA land in Contra Costa County according to various categories for the last five years:⁶

ASSESSMENT ROLL	ACREAGE ASSESSED AT FBV	ACREAGE ASSESSED AT RESTRICTED VALUE	NONRENEWAL ACREAGE	TOTAL RESTRICTED ACREAGE
2002-03	4,423	43,065	1,358	48,846
2001-02	3,909	44,321	788	49,018
2000-01	4,565	44,995	1,908	51,468
1999-00	4,361	45,105	2,676	52,142
1998-99	4,965	44,801	4,888	54,654

Most of the rural property in Contra Costa County consists of grazing lands, vegetable cropland, and nursery crops (e.g., bedding plants and ornamental trees). The bulk of the agricultural revenue generated in Contra Costa County is derived from nursery and vegetable crops. There are also some orchards and vineyards.

The valuation of CLCA properties in Contra Costa County is the responsibility of one real property appraiser. A computer program calculates restricted values for CLCA land. The capitalization rate is updated annually. Cash rents and compatible use income are updated in the computer system based on information reported on the CLCA questionnaires, which are mailed periodically. The computer program compares the restricted value of land to its factored base year value and enrolls the lower value. The current market value comparison is not used due to the rapid increase in land values in Contra Costa County.

Restricted tree and vine values are calculated manually using a net share income. An allowance is made for a return of the well and irrigation charges, and for a return on and of the nonliving improvements and other expenses. The CLCA appraiser compares the restricted living improvement value with both the factored base year value and the current market value.

Homesites are valued in accordance with section 428. Pursuant to sections 75.14 and 52(a), supplemental assessments are not issued for restricted land and living improvements.

⁶ As of April 2003.

In general, we found the Contra Costa County Assessor's CLCA program to be well managed. However, we discovered the following elements that were not in compliance with property tax law.

RECOMMENDATION 3: Revise CLCA assessment procedures by: (1) developing appropriate risk components for CLCA properties, (2) properly applying the appraisal unit concept to each CLCA property, and (3) allowing for recapture of living improvements by using an appropriate discount rate for the declining stage of production.

Develop appropriate risk components for CLCA properties.

The assessor uses a risk component of 0.5 percent in the valuation of all properties under CLCA contract, regardless of location, property characteristics, or crop.

Typically, both farmers and investors recognize varying degrees of risk among different types of agricultural properties. For instance, dry grazing land characteristically rents for cash and there is relatively little risk associated with the income stream from this type of agricultural property. Even if there is a wildfire, the grasses grow back and the income will continue into perpetuity. On the other hand, the orchard or vineyard owner risks not only loss of his capital investment in the rootstock but also loss of income due to annual fluctuations in market prices and crop production.

AH 521 recommends a basic risk component of 1 percent as the standard benchmark for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the risk component will vary according to the risks associated with the development of the income to be capitalized. Factors such as crop price stability, production costs, availability of water, and potential damage due to wind and flood might increase or decrease the risk component for a particular property. Because the location and characteristics of agricultural land vary throughout a county, it is reasonable to expect variations from property to property in the risk rate component used by the assessor. The Contra Costa County Assessor's practice of using the same risk rate component for all types of CLCA properties means that some restricted lands are underassessed and some are overassessed.

Properly apply the appraisal unit concept to each CLCA property.

The assessor compares and enrolls the lowest of (1) the restricted value, (2) the factored base year value, or (3) the current market value for each separate component of the CLCA appraisal unit rather than the appraisal unit itself.

Each CLCA property may include more than one appraisal unit. The major components of the CLCA appraisal unit are land, restricted improvements, and living improvements such as orchards and vineyards. However, the property may contain a separate appraisal unit; homesite value, labor housing and non-compatible use of the land.

Section 423(d) provides that the restricted value shall not exceed the lesser of either the current market value or the factored base year value of the appropriate appraisal unit. This limitation

applies to the restricted appraisal unit of the property. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties*, provides that this value comparison is made on the basis of the appraisal unit of the restricted property rather than the basis of each separate component of the restricted property, such as land or living improvements. Assessing each component of a CLCA appraisal unit at its lowest value results in property owners receiving a tax benefit other than that intended by law.

Allow for recapture of living improvements by using an appropriate discount rate for the declining stage of production.

The assessor projects a future income stream for living improvements: inclining terminal income for young trees and vines that have not reach maturity, level terminal income for mature plants, and declining terminal income for plants that have passed their prime production period. The assessor's techniques in capitalizing the future income stream are correctly calculated except for the recapture allowance for the trees and vines during the declining stage.

We reviewed several restricted tree and vine properties that were valued for the 2002-03 assessment year. The assessor projected a four-year economic life when the plants reach the declining stage. However, the allowance for recapture of the plants during the declining stage was based on the current remaining economic life of the plants, rather than the four years projected. The capitalization rate for converting an income stream into an indicator of value should be based on the number of years for which the income stream is projected. The assessor's practice of using the current remaining life projection for the declining stage results in a higher value.

Taxable Government-Owned Property

Section 3 of article XIII of the California Constitution exempts from taxation any property owned by local governments, except as provided in section 11 of article XIII of the California Constitution. Section 11 provides that land, and the improvements thereon, located outside a local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements constructed to replace improvements that were taxable when acquired are also taxable.

For the 2002-03 assessment roll, there were 201 parcels of taxable government-owned property in Contra Costa County with a total assessed value of approximately \$24,600,000. The following table presents the roll values for taxable government-owned property for the prior five years.

ROLL YEAR	TOTAL ROLL VALUE
2002-03	\$24,619,862
2001-02	\$13,545,677
2000-01	\$10,210,776
1999-00	\$12,251,685
1998-99	\$13,233,477

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to taxable government-owned properties.⁷ Since that ruling, any government-owned land located outside of the agency's boundaries must be assessed at the lowest of (1) the 1967 assessed value multiplied by a factor annually supplied by the BOE, (2) the adjusted base year value, or (3) the current fair market value. The assessor's practice is consistent with this ruling.

The assessor discovers taxable government-owned properties by comparing tax-rate-area maps to the county's list of government agencies located within each tax-rate area. The assessor also annually canvasses public entities to discover taxable possessory interest properties within taxable government-owned lands. One appraiser, using a computer spreadsheet program, annually values all taxable government-owned properties in Contra Costa County.

The assessor valued most taxable government-owned properties correctly; however, we discovered some errors in assessment procedures.

RECOMMENDATION 4: Revise taxable government-owned property assessment procedures by: (1) establishing base year values for taxable government-owned properties at the lower of the restricted value or current market value, (2) assessing only government-owned property that qualifies for taxation according to section 11 of article XIII of the California Constitution, and (3) reviewing government-owned properties located outside their boundaries to determine whether they are taxable.

⁷ *City and County of San Francisco v. County of San Mateo et al.* (1995) 10 Cal 4th 554.

Establish base year values for taxable government-owned properties at the lower of the restricted value or current market value.

The assessor does not establish base year values properly for taxable government-owned properties that were acquired after March 1, 1975. He correctly makes the annual three-value comparison, but his factored base year value is not correctly determined.

BOE guidelines in LTA 2000/037 provide that base year values for taxable government-owned properties acquired after March 1, 1975 should be established as the lower of (1) the full cash value or (2) the 1967 assessed value multiplied by the appropriate Phillips factor, as of the date of acquisition (i.e., change in ownership) of the property. The assessor's practice of using the original current market value as the base year value, rather than as described above, has resulted in overassessments of some taxable government-owned properties.

Assess only government-owned property that qualifies for taxation according to section 11 of article XIII of the California Constitution.

Section 11(a)(2) provides that improvements are taxable on section 11 property only if they were taxable when acquired or were constructed to replace improvements which were taxable when acquired. New improvements that do not replace previously taxable improvements are not taxable.

We found that the Contra Costa County Assessor incorrectly added the value of new construction to the taxable value of government-owned property; that is, the assessor added value for new construction that did not replace taxable improvements. In another instance, the assessor assessed the value of personal property to the taxable value of government-owned property. However, section 11 contains express authority for taxation of real property only.⁸

The assessor's practice of adding the value of nonassessable new construction and personal property to assessments of taxable government-owned properties has resulted in the overassessment of some taxable government-owned properties.

Review government-owned properties located outside their boundaries to determine whether they are taxable.

We discovered a number of government-owned properties that should have been assessed as taxable government-owned properties but had not been assessed. Section 11 of article XIII provides for the taxation of government-owned property when that property is located outside of that agency's boundaries. Failure to discover and assess these properties deprives the county and other taxing agencies of the tax revenue that they are legally entitled to receive.

Taxable Possessory Interests

A taxable possessory interest (PI) is the possession, or a right to the possession, of publicly owned real property, in which the possession provides a private benefit to the possessor and is

⁸ *Pasadena v. County of Los Angeles*, 182 Cal.171, held that public property is not to be taxed unless there is express authority.

independent, durable, and exclusive of rights held by others. With privately owned property, the property tax assessment is based on the fee simple value of the property. With a taxable possessory interest, the assessment is based on only the value of the rights held by the possessor.

For the 2002-03 assessment roll year, the assessor enrolled 2,212 PI's with a total assessed value of about \$275,000,000. One appraiser is responsible for the discovery and assessment of these interests. A newly developed, comprehensive computer program is used to track and value these properties.

In our prior survey, we recommended that the assessor assess all taxable PI's. We discovered a number of private uses of fairground property that appeared to constitute taxable PI's but that had not been assessed. Some had not been appraised because their values were less than \$1,000; the assessor did not enroll these low-value PI's because the county auditor-controller's office would not process billings of less than ten dollars.

In the current survey, we found that the assessor has fully implemented our prior recommendation to assess all taxable PI's; he now assesses over 150 private uses of fairground property. Some of these fairground PI's were enrolled for a taxable value less than \$500 for the 2002-03 assessment roll year. In addition, the assessor now requests property usage reports from government agencies that own taxable property.

RECOMMENDATION 5: Exempt property used exclusively for public school purposes.

The assessor incorrectly assessed the interests of private concessionaires who provide food services at two community colleges. The BOE has long held that property used by concessionaires exclusively for providing food service to public schools, community colleges, state colleges, and state universities is exempt from property taxation under section 3(d) of article XIII of the California Constitution.

As a result of this practice, three taxable possessory interests were enrolled erroneously for fiscal year 2002-03, and the intent of the public school exemption was subverted.

Historical Property

Government Code section 50280 provides that an owner or agent of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for a restricted assessment treatment. Section 50280.1 provides that in order for a property to qualify for assessment as a historical property it must, among other requirements, be listed on the National Register of Historic Places or on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of (1) the factored base year value, (2) the current market value, or (3) the restricted value. The restricted value must be determined by the income capitalization method set forth in section 439.2. Under the prescribed method, the income to be capitalized is the fair market rent less "ordinary and necessary" expenses, and the capitalization rate is a rate that is not derived from the market but rather is a summation of four components described in section 439.2, subdivision (b), as follows:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

For the fiscal year 2002-03, the assessor enrolled four historical properties with a total assessed value of about \$1,141,000. As of lien date 2002, three of these properties were being used as offices, while the fourth was being used as a private residence.

In general, the assessment of historical properties by the Contra Costa County Assessor complies with property tax law. The assessor annually compares the factored base value, the current market value, and the restricted value for each historical property and enrolls the lowest of the three. He uses both the market comparison and income approaches to value, and the valuations are well documented in the appraisal files.

Leasehold Improvements

Leasehold improvements, also called tenant improvements, are improvements or additions to leased property that have been made by lessee, or tenant.⁹ Leasehold improvements, which are real property, can be secured to the real property assessment or assessed to the tenant on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over time, they may add and remove leasehold improvements. These changes in leasehold improvements must be reflected in the property's assessment if they qualify as new construction.

When leasehold improvements are reported on the business property statement, coordination between the real property and business property divisions of the assessor's office is required. The reported cost of the leasehold improvements should be evaluated by both an appraiser in the real property division and an auditor-appraiser in the business property division for validity, and, together, the divisions should determine the appropriate assessment by each division in order to avoid escapes or double assessments. This also includes a determination of whether costs are for repair and maintenance and are, therefore, not assessable, and whether the new improvements should be classified as structural improvements or fixtures, and/or if additions are properly enrolled.

One of the assessor's primary sources for the discovery of leasehold improvements is the business property statement. Schedule B of the Form BOE-571-L, *Business Property Statement*, contains information regarding costs incurred by property owners or tenants for improvements to land or structures where they operate their business, trade, or profession. The business property division processes all new assets reported in Schedule B, column 2 (fixtures). In addition this division refers all new assets reported in Schedule B, column 1 (structural items) to the

⁹ AH-504 p. 29 (October 2002).

commercial and industrial section of the real property division for assessment. New leasehold improvements are supplementally assessed and existing improvements are factored annually.

The assessor regularly uses a variety of other methods to discover leasehold improvements. Monthly, the assessor retrieves plans and building permits from each of the municipal permitting agencies throughout the county. The assessor also utilizes a variety of topic specific questionnaires to obtain additional information or verification of new leasehold improvements or changes in existing ones. These inquiries may be sent to either the lessee or the lessor and are usually prompted by any combination of events including changes in ownership, newly issued construction permits, media articles or field observations.

Field inspections are not considered mandatory for the verification of smaller, less significant tenant improvements especially when correlating data supports a common conclusion. For larger, special or unique properties, site inspections are requested. Discrepancies, conflicting detail, the absence of response to questionnaires, or failure to file Form BOE-571-L will always prompt further investigation for leasehold improvements. The investigation may include telephone contact or a field inspection of the property site.

To ensure efficient coordination between both the business property section and the commercial/industrial section of the property appraisal division, the assessor uses a referral form to track the assessment of leasehold improvements.

We reviewed a number of business property statements and real property records that reported leasehold improvements. We checked for the following: (1) identification of leasehold improvements by the business property division and the real property division; (2) coordination between the business property division and the real property division to ensure proper processing (3) reported costs and descriptions; and (4) proper assessment of leasehold improvements. We found that information reported on the business property statements pertaining to real property was properly transmitted to the commercial/industrial section. We found that leasehold improvements were assessed properly. There was no evidence of double or escaped assessments.

In addition, the assessor gathers information on each new cellular site and its related improvements, whether or not assessment jurisdiction has been delegated, and all such sites are tracked and accounted for in the assessor's telecommunications database.

The Contra Costa County Assessor has a comprehensive understanding of the potential problems associated with leasehold improvement assessment. We found no problems with the assessor's program for identifying and assessing such improvements.

Water Company Property

Water company property assessed on the local assessment roll may include property owned by private water companies, mutual water companies, and some property owned by government-owned water systems. Each case presents a different assessment problem.

We obtained a list of all water supply sources annually inspected by the Contra Costa County Environmental Health Department and the California Public Utilities Commission (CPUC).

Using that list, we reviewed the assessments of a number of water company properties, including private water systems.

The Contra Costa County Assessor's valuation of water companies includes a review of water company articles of incorporation, business property statements, deeds, building permits, lists of private wells monitored by the Contra Costa County Environmental Health Department and a list of CPUC-regulated water companies. Such sources provide the information necessary for the annual valuation of water company property in Contra Costa County. We found the assessor's records to be concise.

Private Water Companies

Private water companies owned by individuals, partnerships, or corporations that are operated for profit are subject to regulation by the California Public Utilities Commission (CPUC). Real property owned by water companies in this category is subject to the valuation limits of article XIII and article XIII A of the California Constitution.

We found that there is only one water company in Contra Costa County that is subject to CPUC regulation, and the property of this company is assessed by the BOE.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its stockholders or members. When incorporated, a mutual water company can enter into contracts, incur obligations, own property, and issue stock; if unincorporated, it can do these things only in the names of the members. Incorporated mutual water companies are not subject to regulation by the CPUC unless they sell water to persons other than the stockholders or members of the company.

We reviewed the assessment of mutual water companies in Contra Costa County and found that they were being properly assessed.

Municipal Water Systems

The California Constitution exempts from taxation property owned by a local government that is located within its boundaries. This includes property owned by city water departments or water districts located within city limits or district boundaries. When a municipal water system owns property located outside of its boundaries, however, that property is subject to assessment in accordance with section 11 of article XIII of the California Constitution as taxable government-owned land.

In Contra Costa County, we found that parcels owned by municipal water systems and located in tax-rate areas within municipal or water district boundaries are being correctly exempted. We also found that the land and improvements of the municipal water systems located outside of their boundaries are being assessed correctly under section 11 of article XIII.

Pipeline Rights-of-Way

Until 1993, intercounty pipeline rights-of-way were assessed by the BOE. In 1993, however, an appellate court ruled that such assessments were outside the BOE's assessment jurisdiction.¹⁰ The court held that, while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. To implement the ruling, sections 401.8 through 401.12 were added to the Revenue and Taxation Code; these sections guide assessors in the valuation of intercounty pipeline lands and rights-of-way.

Prior to the 1993 appellate court decision, when valuing the pipeline rights-of-way, the BOE developed "density classifications" for comparative appraisal purposes. In general, assessors continue to use these classifications as a basis for valuation; in fact, if they depart from them, the assessors lose their statutory presumption of correctness.

Contra Costa County uses the three density classifications found in section 401.10(a)(3)(A). "High density" is valued at \$20,000 per mile; "transitional density" is valued at \$12,000 per mile; and "low density" is valued at \$9,000 per mile. Companies with multiple pipelines in the same rights-of-way are valued accordingly.

Ten companies own pipeline rights of way in Contra Costa County. A special set of assessor's parcel numbers was developed, as well as a special computer spreadsheet application, to implement the valuation process. Each pipeline assessee is assigned a single countywide assessor's parcel number and assessment, which reflects the total value of all rights-of-way owned by the taxpayer. The following table reflects the annual enrolled value for rights-of-way in Contra Costa County for the last five years:

TAX YEAR	ENROLLED VALUE
2001-02	\$8,531,508
2000-01	\$8,284,459
1999-00	\$8,122,022
1998-99	\$7,962,771
1997-98	\$7,664,617

We found that all pipeline rights-of-way in Contra Costa County are being valued in accordance with sections 401.8 through 401.12.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. In general, the assessment of mineral properties is governed by the same statutes and regulations that apply to other types of real property; although, there are three property tax rules specific to such properties: rule 468, which pertains to oil and gas producing properties; rule 469, which pertains to mining properties; and rule 473, which pertains to geothermal properties.

¹⁰ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

Contra Costa County has 10 mineral properties located within its borders. Four of these are sand and gravel operations. The other six are quarry operations for specialty sand, shale, and stone. The appraiser responsible for the assessment of these properties has a background in geology.

RECOMMENDATION 6: Appraise mineral properties as a unit.

The assessor uses the royalty appraisal technique to determine the value of the mineral rights as explained in Assessors' Handbook Section 560, *Assessment of Mining Properties*, pp. 6-11. To fulfill the requirements of rule 469, the procedure requires that the current market value of the appraisal unit components (i.e., land, mineral rights, improvements, and fixtures) be determined and totaled. This total value is then compared with the aggregated adjusted base year values of the same appraisal unit components. The decline in value test thus determines which value shall be enrolled, adjusted base-year value or current market value. Even if the enrollable component value is greater than the complimentary component value, the test must be based on the appraisal unit value. At no time should the adjusted base values be mixed with current market values to determine the appraisal unit value.

A review of the assessor's records and discussions with the appraiser for mineral properties indicated that the assessor does not combine the values for mineral rights, improvements, and land into a value for a total appraisal unit value when determining whether to enroll the adjusted base year value or the current market value. The commercial/industrial section determines the mineral rights value using the royalty method and the business property section separately determines the value of the fixtures. The assessor does not combine the values determined by the two separate sections to reach the appraisal unit value. As a result, the assessor may be adding the adjusted base-year value of the mineral rights, improvements, and land to the current market value of the fixtures.

Rule 469(c)(6) defines the mineral property appraisal unit as everything that would "commonly buy and sell as a unit or that is normally valued separately." Rule 469(e)(2)(C) states that declines in value shall be recognized when the market value of the appraisal unit (i.e., land, improvements [including fixtures], and reserves) is less than the adjusted base-year value. Since the assessor does not coordinate the separate values of the appraisal unit, this measurement cannot be properly made. The assessor should combine the properly adjusted base-year values of the mineral rights, improvements, and fixtures and then compare this combined value with the current market value of the appraisal unit.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

The Contra Costa County Assessor has 10 budgeted auditor-appraiser positions that are responsible for conducting approximately 280 mandatory audits per year. The following table illustrates assessor's mandatory audit program workload for the last five years:

	2002-03	2001-02	2000-01	1999-00	1998-99
Total Mandatory Audits	270	259	320	253	312
Audits Carried Over From Prior Year	54	55	29	41	5
Audits Completed	228	260	294	265	276
Audits Carried Forward	96	54	55	29	41

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

In addition to the mandatory audit workload, the assessor performs an average of 40 nonmandatory audits per year. The following table illustrates the assessor's nonmandatory workload for the last five years:

	2002-03	2001-02	2000-01	1999-00	1998-99
Total Nonmandatory audits	28	74	61	58	16
Nonmandatory Audits Completed	20	74	61	58	16

Nonmandatory audits are scheduled based on available staff time; however, most nonmandatory audits are scheduled because of taxpayer request.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

There are a number of mandatory audits carried over from prior years. The carryover is mainly due to the fact that one auditor-appraiser position has been vacant for two years. However, all incomplete audits have signed waivers of statute limitations and are normally completed in the following year.

Business Property Statement Processing Program

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor; and any other person must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including commercial, industrial, agricultural, boats, and certificated aircraft.

Most business property assessments are based upon the data submitted by taxpayers on the annual property statements. The more accurate the data on the statements, the more accurate the assessment roll. Staffing and workload of the assessor's business property program are discussed within their respective sections of this report.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain smaller business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for several years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to both taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor.

In Contra Costa County, there were 5,890 accounts on direct billing for the 2002-03 assessment roll. This represents nearly 25 percent of the more than 23,000 business property accounts processed and enrolled for that assessment year.

The assessor's guidelines for direct billing are (1) the cost of assets must be under \$100,000 and (2) the property has to have a history of asset stability. The assessor's policy is to remove accounts from the direct billing program when the cost of assets exceeds \$100,000 or a new owner acquires the business. However, we found that the assessor does not consistently follow his established policy.

RECOMMENDATION 7: Include only accounts with an aggregate cost of less than \$100,000 in the direct billing program.

We found accounts on direct billing for which the total cost of business property owned by the taxpayer exceeds \$100,000. These generally involve properties in which the taxpayer reports business property at multiple locations. Twenty-nine of these accounts have a full cost of more than \$1 million. The remaining accounts have a cost range between \$100,200 and \$915,479, thereby exceeding the \$100,000 threshold required for mandatory filing of property statements.

The direct billing process should not be used for taxpayers owning tangible personal property costing \$100,000 or more. These taxpayers are required by section 441 to file annual business property statements. The assessor's practice of enrolling properties that have more than \$100,000 of taxable personal property into the direct billing program is also contrary to the assessor's own policy. The assessor's policy is that direct billing must be limited to properties that have less than \$100,000 in reportable costs.

Discovery

The timely discovery of taxable property is one of the basic functions of a county assessor. Because it is a formidable task to maintain accurate, up-to-date listings of assessable business properties, it is necessary to have an effective discovery program in place.

RECOMMENDATION 8: Revise the personal property discovery program by: (1) assessing all taxable supplies, and (2) assessing all taxable animals.

Assess all taxable supplies.

We found that the assessor did not assess supplies when the taxpayer did not report supplies on their business property statements. Seventeen property statements that we reviewed did not include any supplies and the assessor did not investigate whether the taxpayer actually had supplies.

Article XIII, section 1, of the California Constitution requires that all property be taxed unless the property is exempt from taxation by State or Federal law. Generally, all businesses require some supplies in order to conduct business. Supplies may include fuel, spare parts, office supplies, chemicals used to produce a chemical or physical reaction, janitorial and lavatory supplies, and medical, legal, computer, and accounting supplies. Since business supplies are subject to property taxes, they are reportable on the annual business property statement. Taxpayers may neglect reporting supplies because the amount on hand is a small percentage of the total cost of the taxable property; however, supplies are reportable and assessable regardless of the amount.

Assess all taxable animals.

The assessor is inconsistent in his assessment of taxable animals. In a sample of ten enterprises, the assessor enrolled values for taxable animals in only one business. We found enterprises that use animals in their business (e.g., businesses that specialize in the rental of horses for parties, pony rides, year round horseback riding, etc.) for which animals were not assessed. These enterprises are using animals in a business and the animals are, therefore, taxable. It is likely that other taxable property (e.g., saddles, bridles, and other equipment) is also escaping assessment.

Unless specifically exempted, all animals are taxable under the broad provision of article XIII, section 1(a) of the California Constitution. Taxable animals include animals used in riding stables, pack station operations, and rodeos; stallions or broodmares held for breeding; and security dogs.

Business Equipment Valuation**Commercial, Industrial, and Agricultural Equipment**

Assessors' use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of market value.

RECOMMENDATION 9: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, e.g., pagers, facsimile equipment and photocopiers, that CAA recommends should not be trended. The percent good factors also parallel the AH 581 factors with the exception that the CAA factors provide a minimum percent good factor for older equipment.

Because the assessor uses the CAA tables, he employs minimum percent good factors for older equipment. However, beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The CAA tables recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good factor. The assessor has no supporting evidence for using such minimum factors; hence the manner is not supportable as required by section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA is not supported by a study. Therefore, the assessor should discontinue the use of minimum percent good factors and untrended valuation factors.

Classification

For assessment purposes, machinery and equipment costs reported on Schedule A of the business property statement may represent either personalty or fixtures, or both. A fixture is an item of tangible property that was originally personalty, but is now classified as realty for property tax purposes. Fixtures become physically or constructively annexed to realty, with the intent that they remain annexed indefinitely. We found that the assessor properly classifies equipment with the exception of apartment personalty.

Apartment Personalty

Landlord-owned personal property in apartment complexes is assessable and reportable on the annual Form BOE-571-R, *Apartment House Property Statement*. Such personal property includes, but is not limited to, refrigerators, freestanding electrical stoves, gym equipment, pool equipment, laundry equipment, maintenance equipment, office furniture, and common area furniture.

RECOMMENDATION 10: Uniformly assess personal property in apartments.

The past practice of the assessor regarding personal property in apartments was to assess appliances, furniture, and equipment as improvements (real property) following a change in ownership. The assessor's current policy is to base the valuation on the reported costs from the annual business property statement and to classify the items as personal property. However, the assessor has not corrected the classifications on apartments that have not changed ownership since the adoption of the newer policy.

Section 602 requires that the assessment roll contain the assessed value of the real estate, except improvements, the assessed value of improvements, and the assessed value of personal property. Statutes authorize the assessing of one class of property differently from other property for purposes of taxation. Personal property, unlike real property, is appraised annually at market value.

Real property is subject to an annual inflation factor while personal property is not. In most situations, the value of personal property will decline each year. However, the assessor's current practice of continuing to assess apartment personalty as improvements results in the value of the personal property increasing each year by the annual inflation factor. As a result, the total property value, real and personal, is overassessed.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computers and related equipment. In AH 581 (Table 6: Computer Valuation Factors), the BOE provides valuation factors for use when valuing computers and related equipment.

The assessor has properly used the composite valuation factors provided by the BOE in his valuation of non-production computers and related equipment.

Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*.

The following table illustrates the number of aircraft assessed in Contra Costa County for the last five years:

ROLL YEAR	NUMBER OF AIRCRAFT	ASSESSED VALUE
2002	502	\$73,413,240
2001	539	\$90,350,400
2000	528	\$59,118,764
1999	554	\$79,648,080
1998	555	\$45,856,720

General Aircraft

The Contra Costa County Assessor annually determines the market value of aircraft in accordance with standards and guides to the market value of the aircraft prescribed by the BOE.

The business property section is responsible for the valuation of aircraft. The appraisal support division provides support for the marine/aircraft senior real property technical assistant. They handle the routine record updates and answer questions from taxpayers. The aircraft records of the assessor were inspected and a sample of records was reviewed in detail. We found that the assessor is properly assessing general aircraft.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, an aircraft of historical significance is exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The assessor granted 33 historical aircraft exemptions with a total value of \$835,000 on the 2002-03 assessment roll. We found that the assessor properly administers the historical aircraft exemption.

Vessels

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. As part of the assessment of taxable properties in his jurisdiction, the assessor assesses those vessels permanently located within his county.

The following table illustrates vessels assessed in Contra Costa County for the last five years:

ROLL YEAR	NUMBER OF VESSELS	ASSESSED VALUE
2002	26,236	\$309,725,546
2001	25,662	\$300,833,228
2000	25,477	\$281,605,814
1999	25,748	\$266,293,271
1998	29,402	\$252,453,439

The enrollment includes 31 documented vessels that qualified for the 4 percent assessment as provided by sections 130 and 227.

The assessor discovers taxable vessels by reviewing certificates of documentation, harbormaster's marina reports, field canvass, referrals from other counties, Department of Motor Vehicles information, and property statements.

The method of valuation for recreational vessels is based upon market values listed in the *NADA Small Boat Appraisal Guide*, *BUC Used Boat Price Guide*, and sale documents furnished by vessel owners. The assessor annually compares the prices of recreational vessels in 13 different categories to develop depreciation factors. For valuation of commercial vessels, unique, and restored vessels, the assessor uses information furnished by the vessel owners and local boat dealers. We found that the assessor is adequately assessing vessels.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation.

A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes must be classified as personal property and enrolled on the secured roll

The following table illustrates the number of manufactured homes assessed over the last five years and their total enrolled values:

ROLL YEAR	MANUFACTURED HOMES	TOTAL VALUE
2002	1,689	\$41,529,988
2001	1,604	\$39,840,602
2000	1,499	\$36,208,526
1999	1,358	\$33,254,198
1998	1,313	\$42,685,259

The above total values include the values of miscellaneous real property improvements, pumps, sheds, and cabañas that are located on manufactured home owners' private land.

One appraiser is primarily responsible for discovery and valuation of manufactured homes located within mobile home parks. The assessor utilizes *National Automobile Dealers Association Manufactured Housing Appraisal Guide* (NADA) software to value these homes when they are initially enrolled or when the manufactured home subsequently changes ownership.

As noted in prior surveys, the assessor improperly classified and enrolled manufactured homes as improvements rather than personal property. The assessor acknowledged that it was improper to enroll manufactured homes as improvements and has now classified all manufactured homes located within a mobile home park as personal property.

RECOMMENDATION 11: Revise manufactured home assessment procedures by:
(1) classifying all manufactured homes as personal property as required by section 5801, and (2) annually assessing manufactured homes at the lower of current market value or factored base year value as required by section 5801.

Classify all manufactured homes as personal property as required by section 5801.

The assessor has not changed the classification of manufactured homes located on land in which the owner of the land and the manufactured home are the same. This results in an improper valuation because the manufactured home, combined with the value of other improvements on the parcel, is adjusted annually by the annual inflation factor.

Section 5801(b)(2) provides that a manufactured home should not be classified as real property for property taxation purposes. The classification of manufactured homes as personal property has several significant consequences. When classified as personal property, manufactured homes may qualify as business inventory, cannot be subject to possessory interest assessments, and cannot be subject to special assessments that apply only to land or land and improvements. Classification as personal property also allows for the exemption from local taxation under the provisions of the Soldiers' and Sailors' Civil Relief Act.

Annually assess manufactured homes at the lower of current market value or factored base year value as required by section 5801.

We found that the assessor developed one annual depreciation factor for all manufactured homes located in rental parks. The base year value of manufactured homes located outside of a rental park is factored each year by the appropriate inflation factor. To arrive at this depreciation factor, the assessor uses *National Automobile Dealers Association Manufactured Housing Appraisal Guide* (NADA) software to compare the prior year's market value with the current year's market value for 54 selected manufactured homes. Based on the findings of the analysis, an estimated depreciation factor is applied to the prior year's enrolled values for all manufactured homes. The assessor concluded that manufactured homes typically depreciated by 7 percent between lien date 2001 and lien date 2002.

A single depreciation factor does not take into account the variations in the rates of depreciation for quality and age of manufactured homes. From the list of 54 manufactured homes used in the assessor's study, we reviewed 12 that represented a cross-section of manufacturers, ages, and sizes. We found that depreciation from 2001 to 2002 on these 12 homes ranged from 5.7 percent to 14.6 percent. The span of this range suggests that applying a single depreciation factor to all manufactured homes is not reasonable.

We also found errors in the depreciation study. The assessor's analysis showed three manufactured homes depreciating between 30 percent and 42 percent, while six other manufactured homes appreciated between 21 percent and 47 percent during that same period. In contrast, we found that they all depreciated moderately from 2001 to 2002. Further, our review of the NADA indicates that at no point in their economic lives do manufactured homes appreciate.

Due to the broad range of depreciation factors and errors in the assessor's calculations, the 7 percent depreciation factor used by the assessor appears to be unsupportable. The assessor's current method of annually estimating the market values of these homes is not adequate.

Racehorses

Racehorses domiciled in California are subject to an annual in-lieu tax rather than an ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

Racehorses within the state are registered with the California Horse Racing Board. "Racehorse" means a live horse that is or will be eligible to participate in a horseracing contest in California where pari-mutual racing is permitted. Qualifying horses include stallions, mares, geldings, ridgelings, colts, fillies, and foals. Racehorses also include any horse that may produce foals that will be eligible to participate in a horseracing contest.

In our previous survey report, we recommended that the assessor mail racehorse forms to taxpayers, comply with statutory record keeping, and perform any required audits. The assessor implemented the recommendations. However, for the assessment year 2000, the assessor terminated the program because it was not cost effective.

The assessor has since re-instituted the racehorse program and once again uses the California Horse Racing Board information to discover and contact racehorse owners. The assessor also sends the appropriate racehorse forms to owners and provides the tax collector a copy of the mailing list. In addition, a program has been developed to retain the records for at least five years.

Pursuant to rule 1045(a)(3), the assessor is required to audit the racehorse owner whenever the gross tax liability exceeds a specified amount for four consecutive calendar years. The assessor is aware of this mandatory requirement; however, no racehorse domiciled within Contra Costa County has exceeded the audit threshold.

The assessor has established a program that meets the statutory requirements.

APPENDICES

A. County Property Tax Division Survey Group

Contra Costa County Assessment Practices Survey

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

James Lovett

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal
Engineer

Zella Cunningham

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Bob Rossi

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Manny Garcia

Associate Property Auditor-Appraiser

Larry Gee

Associate Property Auditor-Appraiser

Raymond Tsang

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹¹ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County Property Tax Division (CPTD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)¹²
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

¹¹ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

¹² The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

- b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
- (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Contra Costa County Assessor's response begins on the next page. The BOE has no comments on the response.

**Contra
Costa
County**

Office of Assessor

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Gus S. Kramer
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Valuation

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August 12, 2004

David J. Gau, Deputy Director
Property and Special Taxes Department
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0063

Dear Mr. Gau:

Pursuant to Section 15645 of the California Government Code, enclosed is the Contra Costa County Assessor's response to the recommendations contained in the Assessment Practices Survey of the 2003/2004 assessment roll conducted by the State Board of Equalization. Please incorporate my response into your final Assessment Practices Survey Report.

We appreciate the survey team's very positive and laudatory comments regarding the office's assessment procedures and practices. The team's report recognized that the Contra Costa County Assessor's Office has substantially improved and continues to improve its assessment programs. As previously stated, "The Contra Costa County Assessor's Office is one of the better-managed large assessment operations in the State." Furthermore, that report states, "We attribute this improvement to highly effective management, as well as the dedication and professionalism of the staff." We agree.

In my response to the survey report, you will see that their recommendations have been addressed or are in the process of being addressed.

I would like to thank Arnold Fong and his survey team for the professional and courteous manner in which they conducted the survey.

I would also like to express my gratitude to the employees of the Assessor's Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,



GUS S. KRAMER
County Assessor

Attachment

Assessment Practices Survey Responses – 2004

Recommendation 1: Revise assessment forms and procedures by: (1) submitting final prints of the property statements and in-lieu tax forms as required by Rule 171, (2) transmitting non-prescribed forms in such a manner that it does not imply that the section 463 penalty applies to them, (3) removing the section 482 penalty language from the locally developed sales questionnaire, and (4) removing the penalty statement from the aircraft statement or modifying it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.

Response:

- (1) We concur.
- (2) We concur and have made the required changes.
- (3) We concur and are making the required changes.
- (4) We concur and will be removing the penalty language from the aircraft statement.

Recommendation 2: Correctly identify escaped assessments on the current assessment roll as required by section 533.

Response:

- (1) We concur and have submitted the required changes to our computer programmers.

Recommendation 3: Revise CLCA assessment procedures by: (1) developing appropriate risk components for CLCA properties, (2) properly apply the appraisal unit concept to each CLCA property, and (3) allowing for recapture of the living improvements by using an appropriate discount rate for the declining stage of production.

Response:

- (1) We agree. Appropriate changes have been made to ensure compliance.
- (2) We agree. Appropriate changes have been made to ensure compliance.
- (3) We agree. Appropriate changes have been made to ensure compliance.

Recommendation 4: Revise taxable government-owned property assessment procedures by: (1) establishing base year values for taxable government-owned properties at the lower of the restricted value or current market value, (2) assessing only government-owned property that qualifies for taxation according to section 11 of article XIII of the California Constitution, and (3) reviewing government-owned properties located outside their boundaries to determine whether they are taxable.

Response:

- (1) We agree. Appropriate changes have been made to ensure compliance.
- (2) We agree. Appropriate changes have been made to ensure compliance.
- (3) We agree. Appropriate changes have been made to ensure compliance.

Recommendation 5: Exempt property used exclusively for public school purposes.

Response:

- (1) We accept and have implemented this recommendation. Since the 2002-03 assessment roll, we have exempted property used exclusively for public school purposes as outlined in this recommendation.

Recommendation 6: Appraise mineral properties as a unit.

Response:

- (1) We concur with the intent of this recommendation. We do believe that we are providing an acceptable assessment of mineral properties following the appraisal unit concept.

Recommendation 7: Direct Billing Program

Include only accounts with aggregate costs of less than \$100,000 in the direct billing program.

Response:

- (1) We concur.

Recommendation 8: Revise the property discovery program to: assess all taxable supplies, and assess all taxable animals.

Response:

- (1) We concur.

Recommendation 9: Use Assessor's Handbook Section 581 as intended.

Response:

- (1) We disagree with the SBE's position that the recommended California Assessor's Association tables are determined in an unsupported manner. This minimum percent good factor, equal to 125 percent of the estimated economic life, is consistent with the SBE's AH581 recommendation for developing the maximum recommended equipment index factors. The CAA's recommendations are supported by the experience derived from business property appraisals, audits, and appeals cases of senior auditor-appraisers in Assessor's offices throughout the State. *Assessors' Handbook 504, Assessment of Personal Property and Fixtures, October 2002, page 156, states, "The auditor, therefore, must apply generally accepted auditing standards and utilize generally accepted accounting*

and appraisal principles.” Generally accepted accounting principles (GAAP) requires the recognition of salvage value, if appropriate. When supported by independent evidence, significant asset impairment or lack of marketability is recognized, and additional adjustments to value are made.

Recommendation 10: Uniformly assess personal property in apartments.

Response:

- (1) We agree. A procedure is in place to ensure compliance.

Recommendation 11: Revise manufactured home assessment procedures by: (1) classifying all manufactured homes as personal property as required by section 5801, and (2) annually assessing manufactured homes at the lower of current market value or factored base year value as required by section 5801.

Response:

- (1) We concur and are making the required changes to manufactured homes on land parcels.
- (2) We concur and we have already made the required changes to the 2004 Roll.